It is too soon in my view to bring this paper before Cabinet. Wait for 3 or so weeks.

10 DOWNING STREET

(1)

Prime Minister

Leon Brittan's Public Expenditure paper

(1) Please see Peter Gregson's note at flag A, recommending that this paper be taken at next Thursday's Cabinet.

(2) I am sure this is right. But I think Peter underestimates John Nott's likely hostility – particularly on the proposal that there should be 2% - 4% costed options for defence (as for every other programme)

(3) Please see Mrs. Alan's note at

OVER

Flag B. I am not sure about his second suggestion: the idea is to assemble a menu of reductions in expenditure across the board – so that the Cabinet can pick and choose between them.

(4) Agree to circulation of this paper?

(5) May John Hoskyns and Alan Walters attend the Cabinet meeting?

MCS 12/3

cc JU
BW

2 pps

P.0678

MR SCHOLAR

cc Mr Wright
Mr Moore

PUBLIC EXPENDITURE SURVEY 1982: GUIDELINES

You asked for advice on the letter from the Chief Secretary's office of 12 March addressed to you covering a draft paper on the guidelines for the Public Expenditure Survey 1982 and seeking the Prime Minister's agreement to the circulation of the paper to the Cabinet.

2. It had been provisionally arranged that this paper should come to the Cabinet on 18 March. Until a few days ago it was thought that there would be a paper at the same meeting on End-Year Flexibility. It was known that this matter was of particular interest to the Secretary of State for Defence and it was thought that he might be less likely to raise objections to the proposals for the Public Expenditure Survey guidelines if he had received some satisfaction on End-Year Flexibility.

Treasury and MOD have not yet been able to agree on an End-year Flexibility paper.

MCS

3. I have therefore investigated the following points:

i. How far the absence of a paper on End-Year Flexibility on 18 March is likely to cause Mr Nott to be difficult about the PES guidelines paper.

ii. Whether the absence of the End-Year Flexibility paper is likely to cause problems with other Ministers.

iii. How far the proposals in the PES guidelines paper are likely to be contentious with Mr Nott or with Ministers generally.

iv. How important it is to have the PES guidelines paper approved on 18 March.

4. On i. I understand that Treasury and MoD officials are working on arrangements to ensure that there is no problem over the defence budget at the end of this financial year. It is thought that a solution can be found to the projected underspend in this year and overspend next year by some adjustment of billing dates. Mr Nott knows that this is going on and the belief is that he will therefore not complain on 18 March that there are no proposals before the Cabinet on End-Year Flexibility in general. He will of course be concerned that the Cabinet should consider the general issue in due course but he is not thought likely to raise difficulties on 18 March.

5. On ii. there is no reason to think that the attitude of Ministers other than Mr Nott on 18 March is likely to be affected significantly by the absence of the End-Year Flexibility paper. They will know from their officials that work is going on and they should be content that proposals will come forward in due course. If the matter is raised the Chief Secretary will be able to explain that End-Year Flexibility is not relevant to the setting in motion of the Public Expenditure Survey work. It could be important when the final expenditure decisions have to be taken in the autumn, but the matter should have been dealt with well before then.

No - he will be intensely suspicious of the Treasury paper MCS

6. On iii. there is no reason to think that the PES guidelines paper will be particularly contentious for Mr Nott or for other Ministers. As far as Mr Nott is concerned the Treasury considers that it has dealt with his major concern by the proposal in 7(2) of the paper that the defence budget should have an extra 3 per cent added in 1985-86. If there is difficulty it is likely to arise on two issues: the question of whether there should be an "options" exercise, and the adequacy of the inflation assumptions. On the "options" exercise the Treasury will explain that this exercise does not pre-judge the issue of whether there will be expenditure cuts; the intention is to provide some scope for considering off-setting savings when additional bids are proposed. Mr Nott might argue that he should be exempt from the "options" exercise but it is thought on balance that it is more likely that that argument will take place later in the year. On the

but does Mr Nott?

I doubt it MCS

inflation assumptions the annex to the paper makes it clear (paragraph 3) that the case for revision of the inflation assumptions will be considered by Ministers in September. In any event the inflation assumptions published in the MTFS are not much higher than the cash factors currently being used.

7. On iv. the Treasury is very keen to get the Survey under way so that Ministers can have sensible discussions in July. It is true that the guidelines paper was not taken by the Cabinet last year until the beginning of May but the Survey was not handled satisfactorily last year. There is particular concern this year to deal with local authority expenditure more satisfactorily and some new procedures have been built in for this purpose. If the guidelines paper were to be deferred until a paper could be discussed on End-Year Flexibility, this would mean postponement until after the Easter recess and the timetable would slip by at least a month.

8. In the light of all this there seems to be a good case for agreeing to the circulation of the Chief Secretary's paper on the PES guidelines for discussion by the Cabinet on 18 March.

PG

P L GREGSON

12 March 1982

cc AW
JV

Treasury Chambers, Parliament Street, SW1P 3AG

Michael Scholar Esq
No. 10 Downing Street
London SW1

12 Marcn 1982

Dear Michael

Cabinet next Thursday will be discussing the subject of the 1982 Public Expenditure Survey guidelines.

The Chief Secretary, with the Chancellor of the Exchequer's agreement, is proposing to circulate the attached paper as a basis for discussion. I should be grateful if you could let me know quickly whether the Prime Minister is content for the paper to be circulated.

Yours sincerely

Terry Mathews

T F MATHEWS

Private Secretary

DRAFT OF CHIEF SECRETARY'S PAPER FOR CABINET PUBLIC EXPENDITURE SURVEY 1982: GUIDELINES

Memorandum by the Chief Secretary

1. This paper proposes guidelines for the 1982 Public Expenditure Survey which require collective Ministerial agreement. The object at this stage is as usual to enable officials to work up the material we shall need when we come to substantive discussions.

2. My proposals are set out in the Annex.

3. The 1982 Survey is the first in which cash planning will be applied in full. We shall be starting with the cash plans in the White Paper just published, adjusted by the Budget changes (including the National Insurance Surcharge reductions), and by transfers of provision from the Property Services Agency in accordance with the agreed move to repayment. I propose no immediate general changes to those plans on account of new forecasts of inflation, but departmental bids can be noted where put forward for this as for other reasons. I propose that we consider again in September the prospects for inflation.

4. The 1982 Survey will take us into the mid-1980s. We shall need to reach decisions about the medium-term path of total public expenditure at which we wish to aim in the light of our general policy objectives. It would in my view be wrong simply to extrapolate the present path of expenditure or reach decisions on a purely ad hoc basis. I will put a paper to Cabinet later this year.

privately, * in fact, the position is: you agreed, to the Chancellor's proposal for this study. He is now launching the proposal on colleagues. MCS 11/3

As proposed in the Chancellor's minute* of 8 March to the Prime Minister, [and subsequently approved by her] officials will be considering the long-term trends in public expenditure and reporting by June.

5. I have proposed to the Ministers directly concerned some changes in the way we handle local authorities' current expenditure in the Survey. I believe these proposals offer the prospect of useful improvements compared with what happened in the 1981 Survey.

6. We shall need to consider in due course what our policy for Civil Service manpower should be after 1 April 1984. At this stage, all that is necessary is to establish a baseline for the Survey which consolidates the progress we have already made but does not pre-empt further policy decisions.

7. I now seek colleagues' agreement that, as proposed in the Annex.

1) the aim should be to keep to the timetable in the Appendix to the Annex;

2) the baseline for the 1982 Survey should be the cash plans in Cmnd 8494, as modified by the Budget and agreed transfers of PSA provision, and extended to 1985-86 by adding 4% to the 1984-85 figures, and for Defence a further 3%;

3) the Survey report by officials should show, alongside any additional bids, fully offsetting savings; and, in addition, costed policy options for reductions amounting to at least 2% of the baseline in 1983-84 (starting from the uprating date in the case of social security benefits) and 4% in 1985-86 with appropriate specified consequences for 1984-85.

4) representatives of the local authorities should be consulted about the costed options relevant to them, using the machinery of the Consultative Council on Local Government Finance;

5) manpower figures should be prepared as proposed in the Annex in order to provide a neutral baseline for subsequent policy decisions.

PUBLIC EXPENDITURE SURVEY 1982

Timetable

1. It is proposed (see timetable at Appendix) that:-

i) The Ministers concerned have a preliminary look at local authority aggregate current expenditure in May (see below).

ii) Ministers have a first look at total public expenditure and programmes in July, especially for the first year of the Survey, 1983-84.

iii) Ministers also consider in July preliminary advice to the local authorities, and provisional figures for discussion with the nationalised industries.

iv) Officials should clear the ground for these discussions, by consideration beforehand of Departments' bids and the scope for reductions (see below). But the main Ministerial bilaterals (covering manpower where relevant as well as expenditure) should be in the early autumn.

Prospects for inflation

2. The cash plans just published for 1983-84 and 1984-85 (adjusted by the changes announced in the Budget and by the transfer of PSA provision -see below) are the baseline for

the new survey. Departments may put in bids, or offer reductions, having considered the particular circumstances of their own programmes.

3. Ministers should consider in September whether in addition to or instead of any departmental bids a general revision should be made of the plans because of changed prospects for inflation, and whether to choose and publish a separate assumption for pay in 1983-84.

4. There is no case at present for a general adjustment. The trend of inflation has been declining, faster than expected last autumn. In 1981-82 price movements have been generally around, or a little less than, 11%, and wage movements mostly not far from 6%. In 1982-83 the prospects now are that 4% may be tight for pay, but other public sector price increases may be a little less than 9%. For the RPI between November 1981 and November 1982 a forecast of 9% was published with the Budget.

5. The MTFS published with the Budget shows figures for general inflation in the economy as a whole (the GDP deflator) in 1983-84 and 1984-85 of 7% and 6½%, not much higher than the cash factors used for those years in constructing the present plans. The movement in public sector costs, which include a relatively high proportion of pay, may be lower than general inflation.

6. The prospects for inflation will need to be taken into account in the consideration of preliminary guidance to the local authorities to be given in the summer.

1985-86

7. The new survey will extend to 1985-86. The 1985-86 baseline will be the same as the 1984-85 baseline figures plus, as an assumption for inflation, 4%. Any differences likely to result from "existing policies" should be costed and put forward as proposed increases or reductions, except that for Defence 3% real growth should be treated as already established policy, and incorporated in the baseline.

Local authorities' current expenditure

8. Certain improvements have been proposed in the handling of local authority relevant current expenditure, namely:

i) the Ministers concerned should consider in May the latest information about trends in local authority aggregate expenditure, and decide whether to ask officials to study the implications for services of a change in the aggregate plans, before Cabinet consider in July preliminary advice to the local authorities;

ii) transfers of provision from local authority relevant current expenditure, which cannot be tightly controlled, to other areas (eg central Government) should be ruled out ;

iii) rate support grant should be planned in cash.

Additional bids and offsetting savings

9. Any bids for additions to the baseline should be accompanied by proposals for fully offsetting savings. Estimating increases on demand-determined services count as additional bids; estimating reductions, provided they are reasonably certain, as savings. Proposed savings should be listed in order of acceptability.

10. Savings on local authorities' relevant current expenditure should not be put forward as offsets to increases on other kinds of expenditure, nor in lieu of options (see below) on other expenditure.

11. New or increased charges are a legitimate method of reducing net public expenditure, but in many cases add directly to inflation or are politically sensitive. They may be suggested as possible savings, but, except where otherwise agreed with the Treasury, alternatives should also be suggested in the form of efficiency savings or cuts in services

Options

12. Officials should set out for every programme what would be involved in reductions amounting to at least 2% of the baseline for 1983-84 rising to at least 4% of the baseline (constructed as proposed above) for 1985-86, with appropriate consequences for the intervening year 1984-85. For social security the reductions should be applied from the November uprating dates.

13. These options should be in addition to the savings proposed as offsets to additional bids. As in 1981, details will not be circulated generally. The purpose is to provide material for considering the scope for reductions in some programmes to offset possible increases in others. Efficiency savings, disposals, and the scope for switching from current expenditure to capital, should receive particular attention.

14. As in earlier years, representatives of the local authorities should be brought into discussion of options which affect them.

Manpower

15. Officials should provide information about the Civil Service manpower figures planned for each year. For the baseline, the figures for 1983-84 should be consistent with, or below the agreed departmental targets for 1 April 1984; for 1984-85 and 1985-86 they should be at or below that target. Any bids for more, whether in 1983-84 (against the contingency margin for that year) or for the later years, should be put in as such and explained with reasons. This applies to all such bids, including those already discussed with the Treasury.

Government accommodation

16. In April 1983 repayment by Departments is to be introduced for PSA's expenditure on Government civil accommodation. The baseline for the 1982 survey for each Department will include a share of the White Paper provision for the PSA. Departments can then consider whether to provide, within their total programmes, more or less than that share for their accommodation needs, and indicating how far any additional provision can be regarded as linked with improvements in efficiency.

OUTLINE TIMETABLE FOR SURVEY

March	Departments begin to prepare bids and options.
April	Proposals on bids and options (and other draft material for PESC report) from Departments to Treasury for discussion with Treasury and other interested Departments (by 30 April).
May	Ministerial consideration of local authority totals.
June	Agreed material for PESC report to Treasury for circulation to Departments generally (options for reductions not to be circulated generally) (4 June). If so decided by Ministers, examination by officials of consequences of May discussion for LA services. Discussion at official level of bids and options for reduction.
July	Circulation of PESC report to Cabinet (2 July). E discussion of nationalised industries, including provisional decisions on totals. Cabinet discussion of:- - Chancellor's paper on ~~macro-economy~~ economic background. - Chief Secretary's paper on provisional public expenditure totals (including provisional proposals on bids and cuts for each Department) and particularly recommendations on local authority totals.
Late July/August	Preliminary advice issued to local authorities and to Departments on nationalised industries.
September	Cabinet discussion of inflation provision. Bilaterals, covering both manpower and expenditure. Discussion of nationalised industries (officials) and local authorities (officials and appropriate Cabinet Committee).
October	E discussion of nationalised industries. Cabinet Committee discussions of local authorities. Cabinet discussion of:- - Chancellor's paper on ~~macro-economy~~ economic background. - Chief Secretary's paper on expenditure totals and programmes

Econ Pol

cc Mr Walters
Mr Gregson, CO

10 DOWNING STREET

From the Private Secretary

15 March 1982

Thank you for your letter of 12 March with which you enclosed a draft paper for Cabinet proposing guidelines for the 1982 Public Expenditure Survey.

The Prime Minister would prefer to defer Cabinet discussion of this matter for three weeks or so. On present plans, therefore, it might be taken at Cabinet on Tuesday, 6 April.

M. C. SCHOLAR

Terry Mathews Esq
Chief Secretary's Office.